

# **EXHIBIT 16**

## **CONFIDENTIAL**

In accordance with a protective order, the enclosure(s) shall be treated as confidential and shall not be shown to any person other than those persons designated in paragraph 8.2 of the paragraph order.

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IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF WYOMING

CUSTODIA BANK, INC.,

Plaintiff

vs.

No.

FEDERAL RESERVE BOARD OF

22-cv-00125-SWS

GOVERNORS and FEDERAL RESERVE

BANK OF KANSAS CITY,

Defendant.

CONFIDENTIAL DEPOSITION OF JUDITH HAZEN,  
FRBKC Representative, a Defendant, taken on behalf of  
the Plaintiff before Kelsey Robbins Schmalz, CSR No.  
1571, CCR No. 1148, RPR, pursuant to Notice on the  
16th of November, 2023, at the offices of the Federal  
Reserve Bank of Kansas City, 1 Memorial Drive, Kansas  
City, Missouri.

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1 City Fed provide a ballpark estimate, because this is  
2 one of the topics that we identified to have somebody  
3 speak on behalf of the Kansas City Fed about.

4 MS. CARLETTA: And we made it clear  
5 that it was irrelevant and we would prepare on a  
6 general matter, but it is irrelevant to this  
7 litigation. It has nothing to do with whether or not  
8 the Board or the Bank made a decision on Custodia's  
9 master account request.

10 You can answer the question if you  
11 know.

12 BY MR. SCARBOROUGH:

13 Q. Can you answer the question?

14 A. I'm aware of a handful of meetings  
15 that occurred.

16 Q. If you were speaking on behalf of the  
17 Kansas City Fed, does the Kansas City Fed have any  
18 basis to disagree with the statement that between the  
19 meetings concerning the draft SPDI legislation as  
20 well as the meetings around the supervisory framework  
21 that occurred between 2017 and 2020 that in total  
22 there were more than 100 meetings or calls or  
23 engagements between the Kansas City Fed and  
24 representatives of the State of Wyoming?

25 MS. CARLETTA: Same objection in

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1       that --

2       BY MR. SCARBOROUGH:

3               Q.       Do you have any basis to disagree with  
4       that?

5                       MS. CARLETTA:   Same objection.

6               A.       So I understand the assertion by  
7       Custodia that that occurred. I'm not aware of any  
8       conversations that occurred with the State of  
9       Missouri and the Kansas City Fed that included  
10      representatives of Custodia. I can say that over  
11      that time frame our engagement with the State of  
12      Wyoming would've included a number of topics that  
13      extended beyond this legislation and beyond these  
14      charters and beyond the supervisory program, and so  
15      it may be that conversations between our staff were  
16      in a high number, but I don't believe that that  
17      number is accurate for those that were focused on  
18      this topic.

19      BY MR. SCARBOROUGH:

20              Q.       And when you say this topic, what are  
21      you referencing?

22              A.       I'm referencing SPDI legislation, SPDI  
23      supervisory program and any specific SPDI charter  
24      holders.

25              Q.       So the Kansas City Fed would dispute

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1 that everybody should be treated equally, everybody  
2 should pay the same price?

3 MS. CARLETTA: Objection. Outside the  
4 scope. Calls for a legal conclusion.

5 A. For those institutions that are  
6 approved to access services through the Federal  
7 Reserve System, the prices should be consistent.

8 MR. SCARBOROUGH: Why don't we take a  
9 few minute break.

10 (Off the record from 11:37 to 11:52.)

11 BY MR. SCARBOROUGH:

12 Q. I want to shift gears, and I saw in  
13 your binder, Exhibit 225, that you had compiled  
14 certain lists of people in response to certain  
15 topics.

16 A. Yes.

17 Q. I want to try to do something similar  
18 to understand the people at the Board of Governors  
19 who had involvement either in connection with  
20 Custodia's master account request or more generally  
21 addressing issues around novel chartered entities  
22 like SPDIs, so let me start by asking it's my  
23 understanding that the Board of Governors created  
24 certain working groups to try to answer policy  
25 questions that were raised by novel chartered

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1 entities like SPDIs; is that right?

2 MS. CARLETTA: Objection. Form.

3 A. So the PSPAC, which I'll have to get  
4 you the acronym for --

5 BY MR. SCARBOROUGH:

6 Q. Policy --

7 A. Payment Systems Policy --

8 Q. Payment Systems Policy --

9 A. -- Advisory Council or Committee.

10 Q. I think it's Committee.

11 A. Thank you. Consists of both Governors  
12 and Reserve Bank presidents, and as -- over several  
13 years in watching the evolution of new charters and  
14 new business models for existing charters and new  
15 uses of existing charters, there was work under way,  
16 and one of those was the creation of a nontraditional  
17 account access group that was looking at issues that  
18 were relevant and of interest to the system as a  
19 whole that these nontraditional account access  
20 requests were creating.

21 Q. I'm going to hand you a document  
22 that's been previously marked as Exhibit 202.

23 MR. SCARBOROUGH: I don't have another  
24 copy of it but it was used yesterday.

25 MS. CARLETTA: Yeah.

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1 BY MR. SCARBOROUGH:

2 Q. Do you see that Exhibit 202 sets forth  
3 the nontraditional account access workstream  
4 structure that the Board was establishing?

5 A. Give me just a minute to take a look  
6 at this. I see the overview of the structure of that  
7 account access steering committee.

8 Q. And the Payment System Policy Advisory  
9 Committee, the PSPAC, that was a preexisting  
10 committee that has been longstanding within the  
11 Federal Reserve System, correct?

12 A. Yes. The PSPAC predates the creation  
13 of this account access steering committee.

14 Q. And the nontraditional account access  
15 workstream structure that's reflected in Exhibit 202  
16 was something that was established by the Board  
17 specifically to address policy questions that were  
18 being raised by nontraditional chartered entities  
19 like SPDIs who were seeking access to the payment  
20 system, correct?

21 MS. CARLETTA: Objection. Form.

22 A. So, again, questions were being raised  
23 broadly, and the PSPAC, which consists of both  
24 Governors and Reserve Bank Presidents, were looking  
25 at these broader issues that were being brought to

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1 Custodia's business model. We were discussing a  
2 draft document that had a note about permissibility  
3 considerations. Then more broadly we were discussing  
4 what's applicable to OCC-chartered and other  
5 state-chartered entities, but I think that in our  
6 final analysis we would have looked at the legal  
7 eligibility for Custodia to maintain a master account  
8 and then also would have looked at the activities  
9 that they were proposed to engage in and the risks  
10 associated with that.

11 BY MR. SCARBOROUGH:

12 Q. So let's take that one step at a time.  
13 There is no dispute, is there, that Custodia was  
14 legally eligible to receive a master account,  
15 correct?

16 MS. CARLETTA: Objection. Form.

17 A. The Reserve Bank has conveyed that  
18 they met the threshold eligibility question to apply  
19 for a master account.

20 BY MR. SCARBOROUGH:

21 Q. So the Kansas City Fed is not taking a  
22 different position today than was taken in January of  
23 2022 that Custodia is legally eligible to receive a  
24 master account, correct?

25 MS. CARLETTA: Objection. Form.

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1 Outside the scope. Foundation.

2 A. We've conveyed that they meet the  
3 threshold to request a master account.

4 BY MR. SCARBOROUGH:

5 Q. Okay. And by the way, that  
6 determination was reached by the representatives of  
7 the Board of Governors and first conveyed to Custodia  
8 by the Board's general counsel, Mark Van Der Wiede,  
9 correct?

10 MS. CARLETTA: Objection. Form.

11 A. I don't know how that was first  
12 conveyed to Custodia.

13 BY MR. SCARBOROUGH:

14 Q. Are you aware that the determination  
15 that Custodia was legally eligible to receive a  
16 master account was reached by the Board of Governors?  
17 It was decided by the Board of Governors?

18 MS. CARLETTA: Objection. Form.

19 A. I know that in answering the question  
20 of if they met that threshold eligibility question  
21 our legal counsel consulted with Board legal -- or  
22 general counsel.

23 BY MR. SCARBOROUGH:

24 Q. And do you understand that the Board  
25 of Governors made the determination that Custodia was

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1       legally eligible for a master account?

2                       MS. CARLETTA: Objection. Form.

3               A.       I understand that the Reserve Bank  
4       conveyed that Custodia had met the threshold legal  
5       eligibility question.

6       BY MR. SCARBOROUGH:

7               Q.       My question wasn't who conveyed it.  
8       My question was who made the determination of legal  
9       eligibility. It was the Board, wasn't it?

10                   MS. CARLETTA: Objection. Form.

11              A.       The Board of Governors would be the  
12       ones that have the interpretation of legal  
13       eligibility, and so we would consult with them in  
14       determining legal eligibility.

15       BY MR. SCARBOROUGH:

16              Q.       And is the Kansas City Fed taking the  
17       position today in the litigation that Custodia's  
18       business model was legally impermissible?

19                   MS. CARLETTA: Objection. Form.

20              A.       Legally impermissible by whom or who?

21       BY MR. SCARBOROUGH:

22              Q.       I'm asking the question straight up.  
23       Is the Kansas City Fed taking the position that  
24       Custodia's business model related to providing  
25       banking services related to cryptocurrency assets was

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1 accelerate the process to ensure that we didn't wait  
2 until it went to the director of RBOPS and then had  
3 to circle back around to staff.

4 BY MR. SCARBOROUGH:

5 Q. So by sharing it in the first instance  
6 with the Board staff, you're looking to get  
7 additional feedback in advance; is that fair?

8 MS. CARLETTA: Objection. Form.

9 A. So we had outlined our analysis of  
10 the master account request and our support for our  
11 decision to deny the request for the master  
12 account, but within that we would look particularly  
13 in our analysis around some of the broader principles  
14 and risks that are identified to gather input from  
15 the Board of Governors staff that has specific  
16 expertise in those areas, and so this allows us to  
17 do that.

18 BY MR. SCARBOROUGH:

19 Q. And earlier I asked you was this the  
20 first time that the Kansas City Fed had ever shared a  
21 draft of its recommendation memo on a master account  
22 request, and I believe you said this was the first  
23 time that we were doing it under the S Letter  
24 process, right?

25 MS. CARLETTA: Objection. Form.

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1           A.       So this is the first time I think that  
2       we're sharing this version of the memo with them, and  
3       we're doing it pursuant to that proposed S Letter. I  
4       don't know if there were earlier versions that were  
5       shared as well.

6       BY MR. SCARBOROUGH:

7           Q.       And there's been testimony given in  
8       this case by Esther George that over her 40-year  
9       career at the Kansas City Fed, this was the first  
10      S Letter that she had ever encountered. Has the  
11      Kansas City Fed ever received an S Letter before this  
12      one?

13          A.       So S Letters are numbers subsequently,  
14      so this would have been the 2,677th S Letter that had  
15      been issued.

16          Q.       And can the Kansas City Fed give me an  
17      example of any other S Letter that it has received in  
18      the past ten years?

19                 MS. CARLETTA: Objection. Outside the  
20      scope.

21          A.       I didn't review all S Letters that  
22      have been issued in the last ten years.

23      BY MR. SCARBOROUGH:

24          Q.       Can the Kansas City Fed identify a  
25      single S Letter in the past ten years other than the

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1 one pertaining to the requirements of master  
2 accounts?

3 MS. CARLETTA: Same objections.

4 A. I can't identify by name S Letters  
5 that have been issued in the last ten years.

6 BY MR. SCARBOROUGH:

7 Q. Can the Kansas City Fed identify by  
8 topic or subject matter?

9 MS. CARLETTA: Same objections.

10 BY MR. SCARBOROUGH:

11 Q. You understand that one of the topics  
12 that was listed here was the frequency, occurrence,  
13 the -- about S Letters, the subjects of these  
14 S Letters, what they covered?

15 A. I didn't --

16 MS. CARLETTA: I believe we objected  
17 to the scope of that topic.

18 A. Which number is the one addressing all  
19 S Letters that have been issued?

20 BY MR. SCARBOROUGH:

21 Q. Which topic?

22 A. Yes, please.

23 Q. If you look at Topic 10.

24 MS. CARLETTA: Is it 10 or is it 7?

25 I'm sorry. Yeah. I'm sorry.

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1 BY MR. SCARBOROUGH:

2 Q. So can you answer my question,  
3 Ms. Hazen?

4 A. I can't speak to all of the  
5 S Letters that have been issued over the last 10 or  
6 25 years.

7 Q. I'm not asking you to speak to all of  
8 them. I'm just asking you to identify any topic or  
9 subject matter that any S Letter addressed.

10 A. So S Letters are used to communicate  
11 guidance or -- communicate expectations around  
12 guidance to the Reserve Banks, so any guidance that's  
13 been issued over the last 10 or 25 years likely has  
14 an S Letter that accompanies it.

15 Q. And are you aware that there is a  
16 difference between an SR Letter versus an S Letter?

17 A. Yes.

18 Q. When the Board of Governors issues an  
19 S Letter, is it optional for a Reserve Bank to comply  
20 with it?

21 MS. CARLETTA: Objection. Form and  
22 outside the scope.

23 A. So I suppose it's optional for a  
24 Reserve Bank to comply with guidance from the Board  
25 of Governors, but generally speaking I think the

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1 expectation is that the Reserve Banks endeavor to  
2 comply with the expectations of the Board.

3 BY MR. SCARBOROUGH:

4 Q. The Reserve Banks listen and follow  
5 whatever guidance, policies, procedures are  
6 established by the Board in whatever form they're  
7 communicated, right?

8 MS. CARLETTA: Objection. Form.

9 A. If an expectation is communicated  
10 through an S Letter, then a Reserve Bank would follow  
11 that.

12 BY MR. SCARBOROUGH:

13 Q. And so you submitted -- the Kansas  
14 City Fed submitted to Board of Governors staff a  
15 draft of it, and did it receive feedback back from  
16 the Board?

17 A. Yes, we received feedback from the  
18 Board staff.

19 Q. I'm going to hand you what has been  
20 marked as Exhibit 28. I'm also going to hand you  
21 what has been marked as Exhibit 29. On Exhibit 28,  
22 does this reflect that Jason Hinkle emailed feedback  
23 from Board S&R, financial stability and himself to  
24 the Kansas City Fed?

25 A. Yes. Attached is feedback from Board

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1           A.       Are -- sorry. I was just going to say  
2 on the break I was able to get answers to a few  
3 questions I couldn't answer before. I don't know if  
4 you want those now or --

5           Q.       Sure. Go ahead.

6           A.       So I think that you had asked me about  
7 who issues operating circulars.

8           Q.       Yes.

9           A.       So operating circulars are drafted and  
10 issued by Reserve Banks. The Reserve Banks are party  
11 to them, and there is a notice in consultation  
12 process with RBOPS.

13          Q.       Okay.

14          A.       So they are issued by the Reserve  
15 Banks.

16          Q.       With a notice and comment process?

17          A.       Consultation process with RBOPS.

18          Q.       Was there another question that you  
19 got the answer to over the break?

20          A.       Yes. I just wanted to provide you  
21 some additional information on S Letters.

22          Q.       Okay.

23          A.       So you had asked me how many had been  
24 issued in the last ten years. There's been at least  
25 26 issued since 2013. They're on a variety of

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1 topics, but broadly I'd say that they are on  
2 administration, personnel and financial services.

3 Q. And how did you check that to  
4 determine?

5 A. In reviewing the titles of the  
6 S Letters that have been issued since 2013.

7 Q. And is that available on an internal  
8 Federal Reserve System workspace or platform?

9 A. S Letters are available internally to  
10 the Reserve Banks.

11 Q. In what way are they provided  
12 internally or tracked internally?

13 A. So they're available for review  
14 internally on our intranet site.

15 Q. Okay. Anything else that you had  
16 identified over the break?

17 A. I can give you examples of those if  
18 you're interested, but just broadly those would be  
19 the topics addressed in the 26 issued.

20 Q. All right. Why don't we keep going on  
21 to other topics at the moment.

22 A. Okay.

23 Q. And then to be sensitive to time here.

24 A. Sure.

25 Q. Anything else that you wanted to

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1           Q.       So it's the Kansas City Fed's  
2       understanding that that public-facing database that  
3       the Board has published since essentially end of last  
4       year encompasses both entities that have master  
5       accounts as well as those that have direct access to  
6       services; is that right?

7                   MS. CARLETTA: Objection. Form.

8           A.       So I believe the database was first  
9       published in the summer of 2023, and yes, it includes  
10      a list of all entities with direct access to Federal  
11      Reserve services regardless if they settle in their  
12      own master account or if they settle in a  
13      correspondent account.

14      BY MR. SCARBOROUGH:

15           Q.       And as of November of 2023, so the  
16      present, there is one institution within the Kansas  
17      City Fed's district that has a master account but  
18      does not have -- but is not FDIC insured and does not  
19      have a federal supervisor; is that right?

20           A.       So yes. In looking at the depository  
21      institutions that currently maintain a master  
22      account, we have one institution that is a  
23      state-chartered savings and loan association. It's  
24      not insured by the FDIC and it does not have a  
25      federal regulator.

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1 Q. And if I'm reading this correctly,  
2 there are two other entities, federal government  
3 sponsored enterprises, or GSEs, that have a master  
4 account within the Kansas City Fed's district; is  
5 that correct?

6 A. That's correct.

7 Q. Are those -- is that -- I didn't mean  
8 to interrupt you.

9 A. I'm sorry. Go ahead.

10 Q. Is that a reference to Fannie Mae and  
11 Freddie Mac, or are they different GSEs?

12 A. So the GSEs that we would be  
13 referencing here would include a member of the Farm  
14 Credit System. It would be a federal supervisor  
15 through the FCA. We also have an account with a  
16 federal home loan bank and they -- so they are part  
17 of a GSE and they have a federal supervisor, the  
18 FHFA.

19 Q. Okay. And have you done an analysis  
20 to determine over any particular period of time, say  
21 in the last 10 years or 20 years or whatever time  
22 frame is appropriate to determine the number of  
23 institutions that have had a master account without  
24 being FDIC insured or having a federal supervisor?

25 A. I've not reviewed the historical data.

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1 We currently have one. We have had at least one  
2 other in the past.

3 Q. Okay. Now, I want to make sure I'm  
4 understanding the terminology. So when we talked  
5 about having direct access to Federal Reserve payment  
6 services, is it -- is it, in fact, the case that in  
7 order to use a correspondent bank, a bank needs to  
8 have a master account?

9 MS. CARLETTA: Objection. Form.

10 A. So I suppose a bank could have a  
11 master account and still use correspondent services  
12 with another bank.

13 BY MR. SCARBOROUGH:

14 Q. Is that a prerequisite, though?

15 A. It is not.

16 Q. In order to have a correspondent  
17 relationship to have a master account?

18 A. No. So, again, I think of it first  
19 through the lens of wanting to have direct access to  
20 Federal Reserve financial services, and so once we  
21 determine that an entity is eligible to access those  
22 services directly and approved to do so, we need to  
23 understand where they're going to settle their  
24 activity. An entity might choose to settle that in a  
25 master account, their own master account, in which

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1 case we would also need to approve the master  
2 account. They may also choose to settle in a  
3 correspondent account or another entity's master  
4 account. So you don't have to have your own master  
5 account to settle in a correspondent's account.

6 Q. And I want to make sure I'm not mixing  
7 up terminology, but is there a concept that in order  
8 to have a correspondent relationship an entity needs  
9 have a master account to have a correspondent  
10 relationship?

11 MS. CARLETTA: Objection. Form.

12 A. If an entity wanted to serve as a  
13 correspondent and allow others to settle in their  
14 account.

15 BY MR. SCARBOROUGH:

16 Q. Yeah. That's not my question.

17 A. Then they would need a master account.

18 Q. My question is coming at it from the  
19 opposite end. If an entity wanted to have access and  
20 establish through a correspondent relationship, is  
21 there any scenario that you're aware of that would  
22 require the entity that's seeking the access to have  
23 a master account?

24 MS. CARLETTA: Objection. Form.

25 A. If an entity requested and was

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1 again.

2 BY MR. SCARBOROUGH:

3 Q. I'm on Page 36.

4 A. This one's framed differently, but  
5 yes, I see this bullet point referencing institutions  
6 engaged in novel and high-risk activities. As we go  
7 through this, though, each of these is referencing a  
8 different principle, and, again, I think the broader  
9 notification is that in assessing the specific  
10 principle and the risk that it contemplates, if risk  
11 is noted relative to these things, that's what would  
12 raise this to the awareness of the Board.

13 Q. And one of the triggers to bringing  
14 this to the Board's attention is if the entity is  
15 engaged in what's viewed as novel or high-risk  
16 business activities?

17 MS. CARLETTA: Objection. Form.

18 A. Again, I think that for an institution  
19 type that is newly created, we would see that it made  
20 sense to provide that information to the Board and to  
21 seek their expertise in specific risk matters as we  
22 conducted our assessment.

23 BY MR. SCARBOROUGH:

24 Q. Okay. Coming back for a moment to the  
25 determination to acceptably put pencils down on the

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1 review of Custodia master account and to begin  
2 drafting the denial recommendation, first of all, am  
3 I right that once the focus shifted to drafting the  
4 denial recommendation memo the Kansas City Fed put  
5 its pencils down on considering approval of the  
6 master account at that point?

7 MS. CARLETTA: Objection. Form.

8 A. So drafting -- drafting of the  
9 recommendation began in December. The conclusion on  
10 the decision was not reached and communicated until  
11 January, and so we had the challenging job of both  
12 thinking through how do we analyze the information  
13 that we have to date and also incorporate additional  
14 information that we are receiving.

15 BY MR. SCARBOROUGH:

16 Q. And you were -- the Kansas City Fed  
17 was trying to stay in sync and not get out ahead of  
18 the Board in terms of its analysis of the membership  
19 question; is that right?

20 MS. CARLETTA: Objection. Form.

21 A. I don't think it's a matter of staying  
22 in sync. One of the potential ways to mitigate risk  
23 that we saw was if Custodia had been granted  
24 membership and that would then allow us to rethink  
25 the risks that we had identified and what potential

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1 mitigants might be in place, and so it's not a matter  
2 of being out of sync but rather that we can't  
3 finalize our analysis until we understand if the  
4 Board is going approve membership or if it's going to  
5 deny.

6 BY MR. SCARBOROUGH:

7 Q. And if the Board in a counterfactual  
8 world had granted membership to Custodia, that  
9 effectively would have meant that Custodia would have  
10 a federal regulator going forward, correct?

11 MS. CARLETTA: Objection. Form and  
12 outside the scope.

13 A. So if the Board approved membership of  
14 Custodia, that would then have us -- that would  
15 require us to factor that into our fact pattern that  
16 we were considering in reviewing Custodia's master  
17 account.

18 BY MR. SCARBOROUGH:

19 Q. Okay. You mentioned earlier I think  
20 was it Nick Billman who contributed to the internal  
21 implementation handbook drafts? Am I remembering  
22 that correctly?

23 A. I believe that Nick Billman was  
24 sitting on the practical workstream at the time that  
25 the implementation handbook was being drafted.

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1 Q. Okay. And Nick would have been the  
2 representative on the practical workstream from the  
3 Kansas City Fed?

4 A. At the time that the implementation  
5 handbook was being drafted.

6 Q. Okay. Did --

7 A. And just to clarify --

8 Q. Sure.

9 A. He wasn't the only member that we had.  
10 Just you're asking about him specifically, so he was  
11 on that.

12 Q. Well, was there anybody else besides  
13 Nick at the Kansas City Fed that provided input into  
14 the development or drafting of the internal  
15 implementation handbook that was required by the  
16 S Letter?

17 MS. CARLETTA: Objection. Form and  
18 outside the scope.

19 A. So I'm not certain who all provided  
20 Nick input to pass along on behalf of the Federal  
21 Reserve Bank of Kansas City, but Nick had shared with  
22 us a draft of the handbook for our review and  
23 comment.

24 BY MR. SCARBOROUGH:

■ ■ ■ ■

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The image shows a document page with a vertical dashed line on the left side. The page contains several horizontal bars of varying lengths and positions, which appear to be redacted text or a structured layout. The bars are distributed across the page, with some appearing in groups and others isolated. The overall appearance is that of a scanned document where certain parts have been obscured for security or privacy reasons.

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[illegible]

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1 the items of interest or that they are -- they're  
2 engaged in.

3 BY MS. CARLETTA:

4 Q. Is it fair to say that it was broader  
5 than just SPDIs?

6 A. Yes.

7 Q. Broader than crypto?

8 A. Yes.

9 Q. Did it deal with nontraditional master  
10 accounts generally?

11 A. It would have included that but it  
12 would've been broader than that.

13 Q. And how about the NTAA?

14 A. So the NTAA would have been a group  
15 that was looking at broader matters related to  
16 account access for new types of entities, new uses of  
17 existing entities and new business models that were  
18 being conducted within existing entities.

19 Q. How about the policy workstream?

20 A. So the policy workstream was created  
21 under the steering committee to look broadly at how  
22 to help or what risks to think about relative to  
23 these novel entities and novel uses of charters and  
24 their connection to the payment system, also how to  
25 provide clarity around those considerations.

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1 Q. When you say these entities, what do  
2 you mean?

3 A. I mean new entity types or new uses of  
4 existing entity types.

5 Q. And that extends beyond SPDIs?

6 A. That does.

7 Q. And how about the practical  
8 workstream? I don't think I asked about that yet.

9 A. So the practical workstream was  
10 brought together to determine how best to share  
11 information across the 12 Reserve Banks as they  
12 individually considered master account requests that  
13 they might receive from new types of entities or from  
14 existing types of entities that were being used in  
15 new ways (inaudible.)

16 THE REPORTER: I'm sorry. Used?

17 A. I'm sorry. New types of entities or  
18 existing types of entities being used in new ways or  
19 with new types of business models.

20 BY MS. CARLETTA:

21 Q. So did PSPAC express a view to the  
22 Federal Reserve Bank of Kansas City on whether to  
23 grant or deny Custodia's master account request?

24 A. No.

25 Q. Did the NTAA?

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1 A. No.

2 Q. The policy workstream?

3 A. No.

4 Q. Did the practical workstream?

5 A. No.

6 Q. Did any of those groups indicate to  
7 Federal Reserve Bank decisionmakers whether the Board  
8 wanted the Reserve Bank to grant or deny Custodia's  
9 request?

10 A. No.

11 Q. And did you prepare to testify today  
12 on the denial of Custodia's master account?

13 A. Yes.

14 Q. Who made that decision?

15 A. Esther George.

16 Q. What is the most accurate reflection  
17 of the basis of that decision?

18 MR. SCARBOROUGH: Objection to form.

19 BY MS. CARLETTA:

20 Q. I can rephrase. What document would  
21 reflect that decision?

22 A. I would reference the communication to  
23 Custodia and the memo to Esther that outlined the  
24 reasons recommending denial.

25 Q. By the communication, you mean the

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1 denial letter sent to --

2 A. The denial letter sent to Custodia and  
3 the memorandum sent to Esther George documenting  
4 staff analysis and recommending denial.

5 Q. And when that decision was made, was  
6 output from PSPAC used to arrive at that decision?

7 A. No.

8 Q. How about the NTAA?

9 A. No, other than to the extent that the  
10 handbook that was being drafted would have been  
11 referenced to see if there were principles or risks  
12 that ought to be included in our analysis.

13 Q. And how about either workstream?

14 A. No.

15 Q. I'm just going to turn quickly to  
16 30(b)(6) Topic 3. I don't -- we marked that as an  
17 exhibit, the topics?

18 MR. SCARBOROUGH: Yes. It's the first  
19 exhibit we marked today, 224.

20 MS. CARLETTA: Thanks.

21 BY MR. SCARBOROUGH:

22 Q. Did you prepare on this topic?

23 A. Yes.

24 Q. Did you undertake to identify  
25 individuals at the Board who had substantive

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1 BY MR. SCARBOROUGH:

2 Q. And the guidelines also established a  
3 tiering system, correct?

4 MS. CARLETTA: Objection. Outside the  
5 scope.

6 A. Yes. When the guidelines are  
7 finalized, they include a section that creates a  
8 tiering -- or a definition of three tiers.

9 MS. CARLETTA: By scope, I meant  
10 outside the scope of redirect, not the scope of the  
11 questions.

12 BY MR. SCARBOROUGH:

13 Q. Did the policy workstream under the  
14 nontraditional account access working group have  
15 input into the development of that three-tiered  
16 system that was reflected in the account access  
17 guidelines?

18 MS. CARLETTA: Same objection.

19 A. The policy work group did not  
20 exclusively develop the tiering system but did have  
21 the opportunity to provide input.

22 BY MR. SCARBOROUGH:

23 Q. And did that tiering system have an  
24 impact on Custodia's master account request?

25 MS. CARLETTA: Objection. Form.

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1                   A.           No.

2           BY MR. SCARBOROUGH:

3                   Q.           Custodia under the tiering system was  
4           placed in a Tier 3 status, correct?

5                               MS. CARLETTA: Objection. Form and  
6           outside the scope of the redirect.

7                   A.           Yes. So the tiering system would have  
8           defined a Tier 3 institution as an institution that  
9           did not have deposit insurance or a federal regulator  
10          and would have outlined that as that type of entity,  
11          there would have been greater scrutiny applied to the  
12          review, so Custodia as an uninsured SPDI that is not  
13          a member of the Federal Reserve would have been a  
14          Tier 3 institution and would have been subject to  
15          greater scrutiny in our review. That greater  
16          scrutiny was not applied at the time that the tiering  
17          system was created, though, because prior to that the  
18          Reserve Bank would have considered Custodia's request  
19          as nonroutine and would have reviewed it with greater  
20          scrutiny.

21          BY MS. CARLETTA:

22                   Q.           The -- but just to be clear, the  
23          tiering structure that was established by the account  
24          access guidelines did not exist before those  
25          guidelines were published and finalized, correct?

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1 MS. CARLETTA: Objection. Asked and  
2 answered.

3 A. I don't believe that there was  
4 anything that defined the words Tier 3 to constitute  
5 an uninsured depository institution without a federal  
6 regulator existing prior to the guidelines.

7 BY MR. SCARBOROUGH:

8 Q. Under the pre-guideline world,  
9 Custodia's request for membership would have been  
10 treated as nonroutine, correct?

11 MS. CARLETTA: Objection. Outside the  
12 scope.

13 MR. SCARBOROUGH: Strike that last  
14 question. I don't have any further questions.

15 MS. CARLETTA: We can go off the  
16 record for a second.

17 (Off the record from 6:58-6:59.)

18 MS. CARLETTA: Okay. Everybody's all  
19 set. We're done.

20 (Deposition concluded at 6:59 p.m.)  
21  
22  
23  
24  
25